

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 9924

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AMCONSUL BORDEAUX

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UNCLAS SECTION 01 OF 04 PARIS 13886

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 12639, MAY 16, 1975

1. SUMMARY. WITH FOUR WEEKS REMAINING TO FIRST HALF OF YEAR (AND WITH SUMMER-VACATION HIATUS ON NOT-TOO-DISTANT HORIZON), FRENCH INDUSTRY REMAINS IN DOLDRUMS DESPITE OFFICIAL EFFORTS TO BOLSTER CONFIDENCE AND THUS TO STEP UP PRIVATE CAPITAL EXPENDITURES. UNENTHUSIASTIC REACTION ON PART OF BUSINESS TO GOF'S RECENT INVESTMENT INCENTIVES RECALLS THAT OF HORSES BEING LED TO WATER WHILE LACKING MUCH THIRST. LATEST OFFICIAL INDEX
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SHOWS INDUSTRIAL OUTPUT DOWN TO LEVELS OF MID-1972.

PRIVATE-SECTOR ANALYSTS FORESEE LESS THAN 2 PERCENT REAL GROWTH IN 1975, A MODEST TRADE SURPLUS FOR YEAR, AND AVERAGE RATE OF PRICE INFLATION OF ABOUT 11.5 PERCENT. END SUMMARY.

2. PESSIMISM, SLUGGISH DEMAND PERVADES INDUSTRY -

FRENCH ECONOMIC SITUATION CONTINUES TO BE CHARACTERIZED BY LACK OF BUSINESS CONFIDENCE AND PERSISTENT SLUGGISHNESS OF INTERNAL DEMAND, AS WELL AS GROWING DIFFICULTIES IN EXPORT SECTOR. ACCORDING TO LATEST SURVEY OF ECONOMY BY BANK OF FRANCE, LEVEL OF INDUSTRIAL ACTIVITY GENERALLY UNCHANGED IN APRIL FROM 30-MONTH LOW POINT REACHED IN MARCH (SEE PARA. 4 BELOW), AND MAY HAVE REGISTERED SLIGHT DECLINE EVEN FROM THAT LEVEL IN MAY. THROUGH SUMMER-VACATION PERIOD AT LEAST, NO TANGIBLE IMPROVEMENT IN SITUATION IS EXPECTED.

MORE RECENT SURVEY OF BUSINESSMEN BY INSEE (NATIONAL STATISTICS INSTITUTE), CONDUCTED DURING FIRST THREE WEEKS OF MAY, CONFIRMS BANK OF FRANCE CONCLUSION THAT OVERALL PRODUCTION SHOWING FRESH DECLINES AND THAT GENERAL BUSINESS CLIMATE, WHILE MELLOWING SOMEWHAT, REMAINS MARKEDLY PESSIMISTIC. LACK OF CONFIDENCE ON PART OF FRENCH BUSINESS EXEMPLIFIED BY REACTION TO GOF'S ECONOMIC-SUPPORT PROGRAM (SEE PARIS 10475): WHILE OFFICIAL MEASURES TO ENCOURAGE INVESTMENTS GENERALLY GIVEN FAVORABLE RECEPTION, FEW RESPONDENTS TO BOF SURVEY INDICATED INTENTION FOR TIME BEING TO TAKE ADVANTAGE OF INVESTMENT INCENTIVES - OR EVEN TO RE-CONSIDER INVESTMENT PLANS PREVIOUSLY SHELVED. FOR MOST PART, INDUSTRIALISTS SEEM PREOCCUPIED WITH COPING WITH IMMEDIATE PROBLEMS AND LOOK TO AUTUMN MONTHS FOR TAKING EVENTUAL STEPS TO EXPAND ACTIVITY.

WHILE DOMESTIC DEMAND REMAINS CHRONICALLY SLUGGISH PACE OF FOREIGN ORDERS SHOWING EFFECTS OF GLOBAL ECONOMIC DOWNTURN AND COMPETITIVE PINCH ON FRENCH EXPORTERS - PARTICULARLY AS FRANC HAS CONTINUED TO APPRECIATE RELATIVE TO DOLLAR AND STERLING. THIS HAS NOTABLY BEEN THE UNCLASSIFIED

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CASE IN EXPORT-ORIENTED CAPITAL-EQUIPMENT SECTOR WHICH, ACCORDING TO INSEE SURVEY, STILL SHOWS DECLINING FOREIGN SALES AND SCANT EXPECTATION OF IMPROVEMENT OVER SHORT TERM. PRODUCTION IN CONSUMER AND INTERMEDIATE-GOODS SECTORS SEEMS TO HAVE "BOTTOMED-OUT," HOWEVER, AS THEIR OUTPUT NOW ASSUMED TO BE KEEPING PACE WITH (LARGELY DOMESTIC) SECTORAL DEMAND.

3. OUTLOOK FOR 1975: MODEST GROWTH WITH CONTINUED
INFLATION -

ABOVE BEING SITUATION GOING INTO SIXTH MONTH OF
YEAR, OBSERVERS HERE LESS THAN ENTHUSIASTIC ABOUT
PROSPECTS FOR FRANCE'S OVERALL ECONOMIC RECORD IN
1975. ECONOMISTS WITH PARIS CHAMBER OF COMMERCE,
WHOSE ANALYSES HAVE GENERALLY PROVEN TO BE SOUND, NOW
PROJECTING 1.8 PERCENT GROWTH IN REAL GROSS INTERNAL

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PRODUCT OVER COURSE OF YEAR. (NOTE THAT GIP IN FRENCH
NATIONAL ACCOUNTS DIFFERS FROM GNP PRINCIPALLY THROUGH
OMISSION OF SERVICES PERFORMED BY GOVERNMENT WORKERS

AND DOMESTIC SERVANTS.) THIS FORECAST PREMISED ON INCREASE OF SOME 4 PERCENT IN INDUSTRIAL PRODUCTION DURING SECOND HALF - WHICH WOULD PUT OFFICIAL OUTPUT INDEX AT YEAR'S END ABOUT BACK TO LEVELS SET AT BEGINNING OF 1975 (ASSUMING ACTUAL SECOND-QUARTER PERFORMANCE APPROXIMATES THAT SKETCHED IN PARA. 2 ABOVE).

CONCERNING OTHER ELEMENTS OF FRENCH ECONOMIC SITUATION, CHAMBER OF COMMERCE SOURCES PROJECTING FOR 1975 (AS ANNUAL AVERAGES) 3 PERCENT DECLINE IN IMPORTS AND 0.5 PERCENT INCREASE IN EXPORTS, LEADING TO TRADE UNCLASSIFIED

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SURPLUS OF SOME 2.5 BILLION FRANCS. CONSUMER PRICE INFLATION EXPECTED TO SHOW AVERAGE RATE FOR YEAR OF ABOUT 11.5 PERCENT. NOMINAL INCREASE OF 13.7 PERCENT FORECASTED FOR DISPOSABLE PERSONAL INCOME (OR ABOUT 2 PERCENT REAL GROWTH), WITH RATE OF HOUSEHOLD SAVING ABOUT 15.4 PERCENT OF DISPOSABLE INCOME, ROUGHLY SAME AS LAST YEAR. HOUSEHOLD CONSUMPTION EXPECTED TO RISE BY 2.2 PERCENT. BUSINESS INVESTMENTS MAY SHOW 1 PERCENT REAL GROWTH (COMPARE WITH FORECAST OF 3-4 PERCENT DECLINE REPORTED PARIS 9996), WHILE INVESTMENTS BY HOUSEHOLD SECTOR EXPECTED TO DECLINE BY SOME 2 PERCENT.

4. PRODUCTION DECLINES TO 30-MONTH LOW -

FRENCH INDUSTRIAL OUTPUT DECLINED ANEW IN MARCH, AFTER HAVING LEVELED OFF DURING FIRST TWO MONTHS OF YEAR. INSEE INDEX OF INDUSTRIAL PRODUCTION SET AT 112 FOR MARCH (SEASONALLY ADJUSTED, BASE 1970 AS 100), DOWN 3.4 PERCENT FROM JANUARY-FEBRUARY LEVEL AND SOME 9 PERCENT BELOW THAT FOR MARCH, 1974. LATEST INDEX IS, IN FACT, LOWEST REGISTERED SINCE SUMMER OF 1972.

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED; BASE 1970 AS 100)

JUL AUG SEP OCT NOV DEC JAN FEB MAR

128 128 121 122 118 115 116 116 112

LEVEL OF INDUSTRIAL OUTPUT IN MARCH UNDOUBTEDLY AFFECTED BY STRIKES (WHICH HAD BEGUN IN FEBRUARY AND CONTINUED THROUGHOUT MONTH) AGAINST RENAULT, FRANCE'S LARGEST AUTO MANUFACTURER. ALSO APPARENT WERE CUTBACKS IN OUTPUT BY OIL REFINERIES, REFLECTING DECLINING DEMAND FOR AND IMPORTS OF PETROLEUM DURING FIRST QUARTER (SEE PARA. 6 BELOW).

5. SAVINGS, BOND ISSUES PICK UP IN FIRST QUARTER -

DECLINING FRENCH MONEY-MARKET RATES IN FIRST
QUARTER 1975 HAVE SPARKED SHARP REVIVAL IN BOND ISSUES
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(UP 35 PERCENT IN VOLUME FROM FIRST QUARTER 1974),
ACCORDING TO MAY 23 STATEMENT BY FINANCE MINISTER
FOURCADE. INCREASING RETURNS ON SAVINGS AUTHORIZED BY
GOF LAST DECEMBER ALSO ENCOURAGED LIQUID INVESTMENTS AND
SAVINGS DEPOSITS (NET VOLUME OF LATTER IN FIRST QUARTER
BEING 55 PERCENT ABOVE THAT FOR FIRST QUARTER 1974;
SEE REFTEL).

IN SAME STATEMENT, FOURCADE REVIEWED FINANCIAL-
MARKET DEVELOPMENTS OVER COURSE OF LAST YEAR, NOTING
THAT OVERALL VOLUME OF FINANCIAL ASSETS HELD BY PUBLIC
IN 1974 WAS FF 103.8 BILLION, A DROP OF SOME 8.5 PERCENT
FROM 1973 LEVEL. INCREASING CONSUMPTION BY HOUSEHOLD
SECTOR IN 1974 WAS COMBINED WITH PRONOUNCED DROP IN ITS
RATE OF SAVING; SIMULTANEOUSLY, ACCORDING TO FOURCADE,
THE GOF'S ANTI-INFLATION POLICIES GENERATED INCREASING
RATES OF RETURN ON SHORT-TERM ASSETS, MAKING THEM MORE
ATTRACTIVE TO PUBLIC RELATIVE TO LONGER-TERM ASSETS.
THUS TERM DEPOSITS AND SHORT-TERM PAPER SOLD TO NON-
MONETARY SECTOR INCREASED 31.5 PERCENT IN 1974 (TO
FF 70.6 BILLION) WHILE LONG-TERM SECURITIES ISSUES
DECLINED 27.5 PERCENT (TO FF33.2 BILLION). COMMENT:
WHILE FOURCADE CHOSE TO FOCUS ON DEMAND SIDE IN DISCUS-
SING CONTRARY MOVEMENTS IN SHORT-TERM AND LONG-
TERM CAPITAL MARKETS, FACT REMAINS THAT GOF'S OWN
POLICIES RE EXTERNAL BORROWINGS IN 1974 (AND SO FAR IN
1975) HAVE PROBABLY HAD MORE TELLING EFFECT ON SUPPLY
SIDE. THESE POLICIES, AIMED AT FINANCING FRANCE'S

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CURRENT-ACCOUNT DEFICIT, HAVE ENTAILED DRASTIC RESTRICTIONS ON LONG-TERM DOMESTIC FLOTATIONS - SUCH THAT ELECTRICITE DE FRANCE (TRADITIONALLY ONE OF MAIN SOURCES OF LONG-TERM ISSUES IN FRENCH MARKET) HAS TO OUR KNOWLEDGE DONE ALL OF ITS BORROWING ON EURO-CURRENCY MARKETS SINCE BEGINNING OF 1974. END. COMMENT.

6. COMMODITY-IMPORT BILL CONTINUES TO FALL-

FRENCH COMMODITY-IMPORT BILL CONTINUES TO DECLINE; OVERALL INSEE PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE SET AT 170 IN APRIL (BASE 1968 AS 100), DOWN 3 PERCENT FROM 174.9 IN MARCH AND FROM 247.3 IN APRIL 1974. DECLINE WAS SHARPEST FOR PRIMARY FOODSTUFFS

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(6 PERCENT BELOW MARCH LEVEL); PRICES FOR INDUSTRIAL RAW-MATERIAL IMPORTS WERE DOWN LESS THAN 1 PERCENT FROM MARCH LEVELS.

WHILE OVERALL PRICES PAID BY FRANCE FOR IMPORTED RAW MATERIALS HAVE DECLINED FAIRLY STEADILY FOR NEARLY ONE YEAR (DOUBTLESS REFLECTING APPRECIATION OF FRANC IN FOREIGN-EXCHANGE MARKETS AND CONSEQUENT DOWNWARD

INCIDENCE ON FRANC IMPORT VALUES), FIRST-QUARTER TRADE SURPLUS REPORTED PARIS 9996 NOW SEEN TO HAVE BEEN BOOSTED BY ABSOLUTE DECLINE IN VOLUME OF CRUDE PETROLEUM IMPORTS. ACCORDING TO FIGURES PUBLISHED MAY 28 BY FRENCH PETROLEUM INDUSTRY ASSOCIATION, THESE AMOUNTED TO 26.3 MILLION TONS IN FIRST QUARTER 1975, A DECLINE OF 21.4 PERCENT RELATIVE TO FIRST QUARTER 1974.

7. ECONOMIC AND SOCIAL COUNCIL DEBATES SEVENTH PLAN -

DEBATE ON FRENCH SEVENTH PLAN OPENED IN ECONOMIC AND SOCIAL COUNCIL BY PRIME MINISTER CHIRAC MAY 20, FOLLOWING THEMES OUTLINED PARIS 9819. AS EXPECTED, CHIRAC STRESSED PLAN'S EMPHASIS ON RESTORATION OF HIGH GROWTH RATES (ON ORDER OF 5.5 PERCENT) WHICH, HE SAID, COULD BE ATTAINED "WITHOUT MUCH DIFFICULTY" IF U.S., GERMANY AND OTHERS "RETURN TO REGULAR ECONOMIC GROWTH WITHOUT UNLEASHING INFLATION." IF GOING COUNTING ON ECONOMIC REVIVAL IN FRANCE, HOWEVER, IT REMAINS APPARENTLY CHASTENED BY INFLATIONARY RECORD OF RECENT PAST; CHIRAC TOOK PAINS TO EMPHASIZE "REASONABLE GROWTH" IN CONSUMPTION AND INVESTMENT, "SYSTEMATIC ENCOURAGEMENT" OF SAVINGS, AND "RIGOROUS" MONETARY AND FISCAL POLICIES, IN PARTICULAR RULING OUT "ANY MEANS OF FINANCING WHICH MIGHT AGGRAVATE INFLATION."

INITIAL DISCUSSIONS ON PLAN FOCUSED ON PROVISIONS FOR CHANNELING SAVINGS INTO "PRIORITY" INDUSTRIAL INVESTMENTS. PROPOSALS INCLUDE EFFORTS TO REHABILITATE FRENCH CONVERTIBLE BONDS MARKET AS WELL AS INVESTMENT GUIDELINES (ON THE SWEDISH MODEL) TO BE FOLLOWED BY INDUSTRY DURING EXPANSIONARY PERIODS.

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FOLLOWING APPROVAL BY ECONOMIC AND SOCIAL COUNCIL, PLAN WILL GO TO PARLIAMENT WHERE DEBATE SCHEDULED TO BEGIN JUNE 10.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

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12548 FRENCH RETURN TO EC MONETARY

"SNAKE" MAY 16, 1975

13128 CAPITAL FLOWS MAY 23, 1975

13155 FRENCH RETURN TO EC MONETARY

"SNAKE" MAY 23, 1975

13170 FRENCH GOLD AND FOREIGN

EXCHANGE HOLDINGS MAY 23, 1975

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A-222 FRENCH RESERVES IN APRIL
1975 MAY 16, 1975

A-225 FRENCH FOREIGN EXCHANGE
HOLDINGS MAY 16, 1975

A-232 FRENCH BALANCE OF PAYMENTS
FOR THIRD QUARTER 1974 MAY 22, 1975

A-236 FRENCH FOREIGN EXCHANGE
HOLDINGS MAY 23, 1975
RUSH

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